THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

September 22, 2023

TPWC Market and Economic Update

The Markets

Oh September, why art thou so cruel? The U.S. stock market, in this case represented by the S&P 500 Stock Index (SPX), has a long tradition of being distressed in this month, although not regularly enough to get out of the market as the weather here in Texas finally starts to moderate. Once more this week, it has followed its common path and was down 2.93%, closing at 4320.06. We can say that it remains well above its various moving averages that market technicians read in their commonly futile efforts to time the market, but its drift downward does spread that all too familiar fall miasma. Despite its now three-week run of declines, it remains about 12.52% higher than when the year began, about 21% higher than it was last October, 93% higher than it was in March of 2020, and about 37% higher than it was three years ago. Of course, it also ended the week almost 10% lower than its peak in January of 2022. The other equity index we follow, the CRSP US Mid Cap Value Index followed its older sibling by declining 2.53% for the week to 2290.03 and is now about 2% lower than when the year began, and almost 12% below its peak in early 2022.

On the other side of the markets, the ten-year U.S. Treasury note turned in a continuingly high yield of 4.44%. During the day on Thursday, its yield rose above 4.5% for the first time since 2007. In a manner that was not too pleasing to bond holders, the 20-year Treasury bond was yielding 4.7% and the 30-year 4.53%. Treasury bonds, across the yield spectrum have now lost value for nearly three years, something that hasn't happened before in the 250 years of U.S. history. Bill Ackman, the founder of the Pershing Square hedge fund, announced that the appropriate level for the 30-year T-bond was 5.5%. As bonds decline in value as rates rise, there well may be a lot of unhappiness left in that market. As we have seen for the past several months, the Treasury bills maturing in less than a year remained at annualized rates above 5.5%, keeping the Treasury yield curve firmly inverted. West Texas Intermediate crude oil (WTI), having climbed above $90 per barrel last week, remained there, closing at $90.29. These last two weeks have seen the highest oil prices since last year at this time but remain well below the $120 range we saw a couple of years ago.

The Economy

S&P Global posted their flash U.S. Composite Purchasing Managers Index (PMI) on the 22nd, and like much else it had a distinctly mixed message. The Composite Output Index stood at 50.1, with the Services Index at 50.2 and the Manufacturing Index at 49.7, on a scale where numbers above 50 suggest growth in the next six months to a year while numbers below that mark suggest future contraction. Notable was the news that while manufacturing firms are still seeing a decline in production, the rate of decline has softened to near neutral. Business confidence was reported to be at a nine-month low but surveyed businesses expected to see a rise in output over the next twelve months. Also, in the S&P report was the comment that U.S. businesses registered greater hiring activity during September and are not planning major layoffs.

Moody's Analytics is now forecasting a 4% annualized GDP growth in the third quarter. Considering that in the second quarter, U.S. nonfarm business sector productivity per worker rose at an annualized rate of 3.43% and hours worked rose 1.2%, it would not be at all unreasonable to see total output rise at a 4.1% rate. Longer term, it is unlikely we will see that kind of GDP growth continue because we simply do not have the capacity to handle it. Our interstate highways are jammed, and other transportation methods do not have the spare capacity to handle 4% annual growth over an extended period.

Adding to the picture, the Federal Reserve released their median estimate of domestic GDP growth for the next several years, including what they estimate future interest rates and inflation will be. The Fed estimates that the U.S. GDP will rise 2.1% for the year 2023, followed by a subdued 1.5% in 2024, with longer-term GDP growth at 1.8% per year. Their estimate of unemployment for 2023 is 3.8%, where it is now, with a rise to around 4% in the future. PCE inflation, by their estimate, will be 3.3% this year with a gradual decline to 2.5% over the longer term. They also forecast short-term interest rates to stay above 5% through 2024 before gradually declining to 2.5%.

Forecasting GDP growth, interest rates, inflation rates, and unemployment is an area fraught with hazard but the consensus of that organization with probably the best set of data and the best models and minds working on it is that we will avoid a serious recession and quite possibly, any recession at all, and eventually stabilize in an economic environment not unlike the one we saw before the banking crisis and great recession of 2008-2009. Let us all pray they are right. Meanwhile, we suggest taking advantage of the relatively high short-term rates but be aware that longer-term rates are likely to rise quite a lot more than we have seen so far.

Until next week, you may rest assured that we are hard at work producing fiduciary portfolio management, advice, and what we hope is the best service to our clients known to humankind.

Jeffrey W. McClure, CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®